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IDAHO PUBLIC
UTILITIES COMMISSION

FILED VIA OVERNIGHT MAIL

September 19, 2014

Ms. Jean D. Jewell, Commission Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702-5983

RE: Case No. AVU-E-14-06
Power Cost Adjustment (PCA) Annual Filing of Avista Corporation

Dear Ms. Jewell:

Enclosed for filing with the Commission are an original and seven copies of Avista's Reply Comments in Case AVU-E-14-06. Please direct any questions regarding this filing to Patrick Ehrbar at 509.495.8620.

Sincerely,

A handwritten signature in black ink, appearing to read "DJM", followed by a horizontal line.

David J. Meyer
Vice President and Chief Counsel for Regulatory and Governmental Affairs

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Reply Comments in Case AVU-E-14-06 (Power Cost Adjustment Annual Rate Adjustment Filing) by mailing a copy thereof, postage prepaid, to the following:

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Dated at Spokane, Washington this 19th day of September 2014.



Patrick Ehrbar
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11 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

12 IN THE MATTER OF THE POWER COST)	CASE NO. AVU-E-14-06
13 ADJUSTMENT (PCA) ANNUAL RATE)	
14 ADJUSTMENT FILING OF AVISTA)	REPLY COMMENTS OF
15 CORPORATION)	AVISTA CORPORATION
16 _____)	

18 Avista Corporation (“Avista” or “Company”) hereby submits reply comments in response
19 to the comments filed by Clearwater Paper Corporation (“Clearwater”), Idaho Forest Group
20 (“IFG”), the Snake River Alliance, and the joint comments of the Sierra Club, Idaho
21 Conservation League, and Montana Environmental Information Center.¹

22 **I. Colstrip Unit 4**

23 Avista owns a 15% share of Colstrip Units 3 and 4, which are two of four units of the
24 Colstrip Generating Station, a coal-fired power plant complex located in Montana. From July 1,
25 2013 through January 22, 2014, Unit 4 was unavailable due to a forced outage. Colstrip’s
26 incremental generation expense is lower than the wholesale power prices, therefore, replacing
27 Colstrip energy led to an increase in power supply expense. Approximately \$4 million of the
28 PCA rate request is due to the Colstrip Unit 4 outage.

¹ While the Notice of Modified Procedure issued on August 15, 2014 (Order No. 33095) does not call for reply comments, Avista seeks leave to file these comments to briefly respond to certain issues raised by interested parties, believing it will assist in the Commission’s deliberation.

1 The outage occurred after returning the unit to service following a routine scheduled
2 generator overhaul. All of the overhaul work performed on the generator prior to the failure was
3 performed by Siemens, the Original Equipment Manufacturer (OEM). The Root Cause Analysis
4 Report on the PPL Montana Colstrip Unit 4 Core Failure Event, prepared by Generator
5 Consulting Services, Inc., an independent third party, stated at page 46: “In our opinion, PPL
6 [the Colstrip managing operator] did everything according to standard industry practice such as
7 hiring the OEM (Siemens) to perform the maintenance, performing El Cid testing on the core,
8 operating their unit according to industry practice, (since there was no indication of mis-
9 operation), and protecting the unit with adequate relay protection. Nothing they did or could
10 have done, could have prevented this failure.” (emphasis added) (The Root Cause Analysis
11 Report was provided to all parties in response to IFG Data Request No. 2.)

12 During Staff’s review of Avista’s PCA Application, Staff paid particular attention to the
13 impact of the Colstrip Unit 4 outage. Staff’s comments, at page 8 described its review, as
14 follows:

15 “...In light of the Colstrip outage, Staff considered whether Avista should receive
16 recovery for increases in net power supply expenses due to the outage and whether the
17 Company's net power supply expense was reasonable.

18 Staff examined the Company's data request responses and found no definitive evidence of
19 Company, PPL Montana (facility operator), or third-party neglect or malfeasance causing
20 the Colstrip outage. In addition, although there was insurance that covered property
21 damage, the Company has no insurance that covers the cost of increased power supply
22 expenses. Staff agrees with the Company that the Company's portfolio of resources and
23 access to electricity markets should hold sufficient reserves to cover both forced and
24 unforced outage. By design, Staff believes this is an appropriate form of insurance to
25 cover these types of outage occurrences. Based on the evidence presented, Staff believes
26 reasonably incurred increases in net power cost due to the Colstrip Unit 4 outage should
27 be included for recovery in the Company's Application.” (emphasis added)
28

29 Both Clearwater and IFG take issue with including the cost of the Colstrip Unit 4 outage
30 in the PCA. Both parties recommend removing approximately \$4 million in costs related to the

Colstrip Unit 4 outage from the proposed PCA rates and requested that the Commission prescribe further proceedings to investigate whether some or all of these costs are recoverable from Idaho customers. They further argue that the Colstrip Unit 4 outage was an extraordinary, one-time, non-recurring event and that the PCA is meant to address fluctuations of normal power supply expense occurring in the ordinary course of business.

Both Clearwater and IFG point to an Idaho Power Company PCA case (Case No. IPC-E-04-09) when Idaho Power experienced a forced outage of its Valmy generating facility. The Valmy outage was discussed in Order No. 29506, Case No. IPC-E-04-9, at page 5, as follows:

As outlined in the Staff's Comments and the Company's confidential audit report, the incident was caused by an apparent failure to follow established safety procedures, a lack of proper supervision and training, and poor communication between project personnel....The Staff recommended that the Commission initiate an investigation to determine whether the costs for the Valmy replacement power should be calculated and credited as an adjustment to next year's PCA.

In the Valmy case, after its initial review, Staff recommended further investigation, due to the cause of the outage and apparent failure on the part of the operator of the generating station.

The Colstrip outage is very different from the Valmy outage. After conducting its audit, Staff did not recommend the same further investigation of the Colstrip Unit 4 outage in this case, because there was no threshold indication, whatsoever, that the cause of the outage might have been due to neglect or malfeasance on the part of Avista or the generating facility operator.² Indeed, Clearwater and IFG also engaged in discovery in this PCA filing and yet can point to no

² It is also the case that the Colstrip Unit 4 outage was included in Avista's 2014 Energy Recovery Mechanism ("ERM") filing in the State of Washington (see Docket UE-140540). The Staff of the Washington Utilities and Transportation Commission, and other parties, all received the same information related to the outage in the ERM filing, as the parties in this matter. In Washington Staff's Open Meeting Memorandum dated July 10, 2014, which recommended approval of Avista's ERM filing, without the need for further proceedings, Staff stated at page 2: "After careful review of the report prepared by an independent consulting firm, staff agrees that the Colstrip outage was not the result of imprudent actions on the part of the company." (emphasis added) (See Avista's response to IFG Data Request No. 3.) The Washington Commission approved the ERM filing as filed by the Company, without a need for further proceedings.

1 evidence suggesting a lack of prudence on Avista's part or the need for further review.

2 With regard to the performance of the Colstrip generation facilities, over the last 15 years
3 the equivalent availability factor (EAF) for Colstrip Units 3 and 4 has been 84.2%. This EAF
4 reflects solid performance over time for thermal plants of this size, and this 15-year time frame
5 also includes the two extended outages in 2009 and 2014 for one of the units. In essence, the
6 favorable performance in some years offsets the unfavorable performance in other years. The
7 benefits from the years of favorable performance have been flowed through to customers in the
8 PCA.

9 In addition, Avista does not agree with the assertion made by Clearwater and IFG that
10 costs related to plant outages generally should be excluded from the PCA. In 2001, in Case No.
11 AVU-E-01-1, Avista proposed modifications to the PCA methodology which had been capturing
12 the difference between authorized power supply costs from the last general rate case and a
13 "modeled actual" power supply cost. Avista's proposal, which was agreed to by Staff and
14 ultimately approved by the Commission, used actual power supply costs (which would serve to
15 capture the effect of any unplanned outages), instead of the computer-modeled costs. This was
16 recognized in Order No. 28775, at page 4:

17 Power supply expenses associated with the thermal plant forced outages, the Company
18 states, are not included in the current PCA mechanism because the mechanism is based
19 on modeled rather than actual generation.
20

21 Since the PCA methodology was changed to use actual power supply costs, the power
22 supply expenses associated with the thermal plant forced outages were, therefore, designed to be
23 included in the PCA calculation. In fact, Colstrip Unit 4 experienced an extended outage from
24 May 2009 until November 2009. The costs associated with this outage were, in fact, included in
25 the PCA for both 2009 and 2010.

II. PCA Rate Spread

As noted in the Company's filing, as well as in Clearwater's comments, the impact in the PCA of the new Electric Service Agreement ("ESA") between Avista and Clearwater Paper is approximately \$2.3 million. Clearwater argues that the PCA revenue increase should be spread as if the new ESA was included in base rates, arguing that this is consistent with Staff's "Key Cost of Service Indications" exhibit which Staff included in its comments in support of the new Clearwater/Avista ESA in Case AVU-E-13-02, and which Clearwater Paper included in their comments in this case³. (See Clearwater Comments, at page 4)

First, it is important to note that any cost of service study is only a guide in determining the spread of revenue requirement in a general rate case, and the assumptions and methodologies used in such a study can be very different, leading to very different results. As such, while the Staff estimate, based solely on Avista's filed cost of service results, shows Clearwater Paper being above cost of service, other cost of service studies could have very different results. Second, and perhaps more to the point, in the Joint Petition filed by Clearwater and Avista on April 10, 2013 in support of the new Electric Service Agreement, and as later approved by the Commission, Avista and Clearwater stated at page 6:

The Parties propose that the change in revenues and expenses associated with the new service agreement with Clearwater, as compared with the revenues and expenses included in the last rate case for Clearwater, be tracked through the PCA at 100%, similar to the accounting treatment for the current Purchase and Sale Agreement.

Finally, the Commission on several occasions has affirmed using an energy basis, or uniform cents-per-kWh, as the basis for the rate spread used in the PCA. The Commission stated the

³ The purpose of Staff's exhibit in its ESA comments was to estimate the impact of the new ESA on cost of service results. The Stipulation and Settlement, however, filed by all parties including Clearwater in that case, and which was later approved by the Commission, states in paragraph 18, "the Parties agreed to use a pro-rata allocation based on the Company's proposed 15% move towards unity for purposes of spreading the revised electric revenue requirement, while not agreeing on any particular cost of service methodology." (emphasis added)

1 following as it relates to PCA rate spread in the Company's 2004 general rate case⁴:

2 The Commission finds that a cents per kWh recovery method for the PCA is superior to
3 the percentage basis currently used....[W]e find the cents per kWh rate more equitable to
4 all customers than the percentage allocation. We recognize that the variable cost of
5 energy fluctuates from year to year based on the amount of energy consumed and should
6 therefore be surcharged or credited on an equal cents per kWh basis.
7

8 The Commission later reaffirmed this view in Avista's 2010 PCA when Clearwater Paper
9 protested Avista's uniform cents per kWh rate spread⁵:

10 The Commission previously allocated PCA costs on a uniform percentage basis, but
11 determined that a cents-per-kWh recovery method was more equitable to all customers
12 than a percentage allocation.
13

14 In short, the costs tracked through the PCA are related to energy, and therefore any
15 surcharge or rebate stemming from the PCA should be calculated on an energy basis, i.e., a
16 uniform cents-per-kWh basis. This issue has been squarely addressed and resolved by the
17 Commission.

18 Clearwater through its Joint Petition with Avista requested, and the Commission
19 approved, that the changes from the new ESA be incorporated in the PCA. The Commission has
20 stated that PCA rate changes should occur on a uniform cents-per-kWh basis. As such, Avista's
21 PCA meets the conditions of the Commission's prior orders.

22 **III. Other Matters**

23 Finally, comments were also submitted in this matter by the Snake River Alliance and by
24 The Sierra Club, the Idaho Conservation League and the Montana Environmental Information
25 Center. These groups addressed concerns about coal-fired generation generally, and suggested
26 that the Colstrip Generating Facility had become unreliable and unreasonably costly to operate.
27 The future of Colstrip should not be debated in a PCA proceeding, which is designed to adjust

⁴ Order 29602, Case AVU-E-04-01, p. 48.

⁵ Order 32080, Case AVU-E-10-03, p. 6.

1 rates for changes in prior power supply costs.

2 Finally, Avista agrees with Staff's comments related to the two deficiencies found in the
3 press release and customer notice. The Company has reviewed the updated Rules of Procedure
4 and will include the required information in all future releases and notices.

5 The Company appreciates the opportunity to respond to the comments filed in this case.

6 DATED at Spokane, Washington, this 19th day of September, 2014.

7 AVISTA CORPORATION

8 By  _____

9 David J. Meyer,
10 Vice President and Chief Counsel of
11 Regulatory & Governmental Affairs

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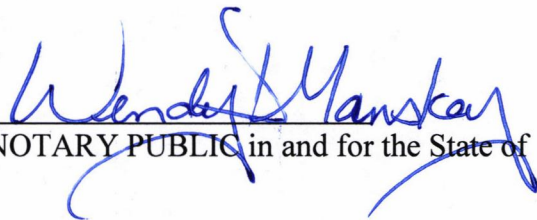
VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn, on oath deposes and says: that he is the Vice President and Chief Counsel of Regulatory & Governmental Affairs for Avista Utilities; that he has read the above and foregoing Application, knows the contents thereof, and believes the same to be true.



SIGNED AND SWORN to before me this 19th day of September 2014, by David Meyer.


NOTARY PUBLIC in and for the State of

Washington, residing at Spokane.

Commission Expires: 10-09-14

